MULTIMEDIA UNIVERSITY ®

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

# FINAL EXAMINATION

**TRIMESTER 2, 2019 / 2020**

## DFN5114 – FUNDAMENTALS OF FINANCE 1

(for Diploma Students Only)

4th MARCH 2020
2.30 PM - 4.30 PM
(2 Hours)

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**INSTRUCTIONS TO STUDENT**

1. This question paper consists of **NINE** pages (excluding cover page and Appendices) with 2 Sections.
2. For Section A, shade you answers on the OMR sheet provided.
3. For Section B, write your answers in the answer booklet provided.
4. The formulae are given in the appendices.
5. Answer **ALL** questions.

## SECTION A: MULTIPLE CHOICE QUESTIONS

**Instruction : Please shade your answers in the OMR Sheet provided.**

1. _____ is concerned with design and delivery of advice and financial products to individuals, businesses, and governments.

   A. Managerial finance
   B. Auditing services
   C. Financial Service
   D. Cost Accounting

2. Which of the following legal forms of organizations is characterized by unlimited liability?

   A. Sole proprietorship
   B. Limited partnership
   C. Corporation
   D. Cooperative

3. Which of the following is true of sole proprietorships and corporations?

   A. It is difficult to transfer ownership of corporations compared to that of sole proprietorships.
   B. Income from both forms of organizations are taxed only at the corporate level.
   C. Both sole proprietorships and corporations are equally scrutinized and regulated by government bodies.
   D. In sole proprietorships, owners have unlimited liability; whereas, in corporations, owners have limited liability.

4. _____ provides a financial summary of a firm's operating results during a specified period.

   A. Statement of Profit and Loss
   B. Statement of Cash Flows
   C. Statement of Financial Position
   D. Statement of Retained Earnings

5. The Statement of Cash Flows _____.

   A. shows the financial position of a firm at a given point of time.
   B. summarizes all the purchase and sale of fixed assets and raw materials
   C. provides insight into a firm's operating, investment, and financing cash flows
   D. classifies a firm's cash flows as operating, investing, financing, and other activities

**Continued...**

6. A firm has the following accounts and financial data for 2019:

| | | | |
|---|---|---|---|
| Sales Revenue | RM3,060 | Cost of Goods Sold | RM1,800 |
| Accounts Receivable | RM500 | Preferred Stock Dividend | RM18 |
| Interest Expense | RM126 | Tax Rate | 40% |
| Total Operating Expenses | RM600 | Number of Common Shares Outstanding | 1,000 |
| Accounts Payable | RM240 | | |

Based on the above information, the firm's earnings per share for 2019 is____

A. RM0.5335
B. RM0.5125
C. RM0.3204
D. RM0.3024

7. On the Statement of Financial Position, net fixed assets represent _____.

A. gross fixed assets at cost minus depreciation expense
B. gross fixed assets at market value minus depreciation expense
C. gross fixed assets at cost minus accumulated depreciation
D. gross fixed assets at market value minus accumulated deprecation

8. Allocation of the historic costs of fixed assets against the annual revenue they generate is called _____.

A. arbitraging
B. securitization
C. depreciation
D. securitization

9. The three categories of a firm's statement of cash flows are _____.

A. cash flow from operating activities, cash flow from investment activities, and cash flow from noncash activities.
B. cash flow from operating activities, cash flow from noncash activities, and cash flow from financing activities
C. cash flow from equity activities, cash flow from investment activities, and cash flow from financing activities
D. cash flow from operating activities, cash flow from investment activities, and cash flow from financing activities

10. _____ is a noncash charge.

A. Labor expense
B. Depreciation
C. Salaries
D. Rent

11. The cash flows from financing activities section of the statement of cash flows includes _____.

A. labour expense
B. cost of raw materials
C. purchase of assets
D. dividend paid

**Continued...**

12. Cash flows directly related to production and sale of a firm's products and services are called _____.

A. cash flow from operating activities
B. cash flow from investment activities
C. cash flow from financing activities
D. cash flow from equity activities

13. The amount of money that would have to be invested today at a given interest rate over a specified period in order to equal a future amount is called _____.

A. future value
B. present value
C. future value of annuity
D. compounded value

14. The annual rate of return is referred to as the _____.

A. discount rate
B. marginal rate
C. risk-free rate
D. marginal cost

15. If you expect to retire in 30 years, live on RM50,000 per year and expect the inflation to average 3% over the next 30 years, what amount of annual income will you need to live at the same comfort level in 30 years?

A. RM121,363
B. RM95,000
C. RM20,599
D. RM51,500

16. An annuity with an infinite life is called a(n) _____.
A. perpetuity
B. primia
C. option
D. deep discount

17. Zarina plans to fund his individual retirement account (IRA) with the maximum contribution of RM2,000 at the end of each year for the next 20 years. If Zarina can earn 12 percent on his contributions, how much will she have at the end of the twentieth year?

A. RM19,292
B. RM14,938
C. RM40,000
D. RM144,104

18. The type of long term financing used by both Corporations and Government entities Is called as_____

A. Bonds
B. preferred stocks
C. retained earnings
D. Common Stocks

**Continued...**

19. Which one of the following terms refers to the date when the principal amount of Bond is repaid?

A. Coupon date
B. Issue date
C. Maturity date
D. Face date

20. A premium bond is the bond by which the _____.

A. market price exceeds the par value
B. face value exceeds the market price
C. interest rates exceeds the coupon rate
D. coupon rate exceeds the interest rate

**Questions 21 and 22 are based on the statement below.**

The Corporation issued a 20 years bond with 6.5 percent coupon bond. The face value of the bond is RM1,000 and the bond makes annual coupon payments. The required return on the bond is 10 percent.

21. Calculate the bond price.

A. RM520.60
B. RM702.02
C. RM968.10
D. RM998.80

22. The answer in question no, 21 above indicates that the bond is selling at _____

A. par
B. discount
C. premium
D. gross

23. A debt instrument indicating that a corporation has borrowed a certain amount of money and promises to repay it in the future under clearly defined terms is called a(n) _____.

A. common stock
B. corporate bond
C. indenture
D. preferred stock

24. The cost of a long-term debt generally _____ that of a short-term debt.

A. is less than
B. is equal to
C. is greater than
D. is less than or equal to

25. Which of the following statements is **not** considered a disadvantage of the corporate form of organization?

A. Additional taxes
B. Government regulations
C. Limited liability of shareholders
D. Separation of ownership and management

**Continued...**

26. Limited liability of shareholders means that

A. the corporation is subject to strict government regulations.
B. the entity is separate and distinct from its owners.
C. creditors have no legal claim to the assets of the owners unless fraud has occurred.
D. they are taxed as a separate legal entity.

27. RM100 is received at the beginning of year 1, RM200 is received at the beginning of year 2, and RM300 is received at the beginning of year 3. If these cash flows are deposited at 12 percent, their combined future value at the end of year 3 is _____.

A. RM1,536
B. RM672
C. RM727
D. RM1,245

28. Find the future value at the end of year 3 of the following stream of cash flows received at the end of each year, assuming the firm can earn 8 percent on its investments.

| Year | Amount (RM) |
|---|---|
| 1 | 10,000 |
| 2 | 16,000 |
| 3 | 19,000 |

A. RM45,000
B. RM53,396
C. RM47,944
D. RM56,690

29. _____ are promised a fixed periodic dividend that must be paid prior to paying any common stock dividends.

A. Preferred stockholders
B. Common stockholders
C. Bondholders
D. Creditors

30. An 8 percent preferred stock with a market price of RM110 per share and a RM100 par value pays a cash dividend of _____.

A. RM4.00
B. RM8.00
C. RM8.80
D. RM80.00

**Continued...**

31. Which one of the following is a non cash payment made by a firm to its shareholders?

A. Cash distribution
B. Regular dividend
C. Stock dividend
D. Reverse stock

32. In addition to the three basic financial statements, which of the following is also a required financial statement?

A. the "Cash Budget"
B. the Statement of Cash Flows
C. the Statement of Cash Inflows and Outflows
D. the "Cash Reconciliation"

33. Which one of the following is **not** a tool in financial statement analysis?

A. Horizontal analysis
B. Circular analysis
C. Vertical analysis
D. Ratio analysis

34. The current ratio is

A. calculated by dividing current liabilities by current assets.
B. used to evaluate a company's liquidity and short-term debt paying ability.
C. used to evaluate a company's solvency and long-term debt paying ability.
D. calculated by subtracting current liabilities from current assets.

35. The debt to total assets ratio measures

A. the company's profitability.
B. whether interest can be paid on debt in the current year.
C. the proportion of interest paid relative to dividends paid.
D. the percentage of the total assets provided by creditors

36. _____ is the process of evaluating and selecting long-term investments that are consistent with a firm's goal of maximizing owners' wealth.

A. Recapitalizing assets
B. Capital budgeting
C. Ratio analysis
D. Securitization

37. A RM60,000 outlay for a new machine with a usable life of 15 years is called _____.

A. capital expenditure
B. financing expenditure
C. replacement expenditure
D. operating expenditure

**Continued...**

38. The basic motive for capital expenditure is to _____.

A. expand operations
B. replace current assets
C. renew current assets
D. improve leverage

39. The first step in the capital budgeting process is _____.

A. review and analysis
B. implementation
C. decision making
D. proposal generation

40. A firm is evaluating a proposal which has an initial investment of RM35,000 and has cash flows of RM10,000 in year 1, RM20,000 in year 2, and RM10,000 in year 3. The payback period of the project is _____.

A. 1 year
B. 2 years
C. between 1 and 2 years
D. between 2 and 3 years

**[TOTAL 40 MARKS]**

## SECTION B: STRUCTURED QUESTIONS (60 marks)

**Instruction: Write all your answers in the answer booklet provided.**

## QUESTION 1 (20 Marks)

Rizalman Network Sdn. Bhd.'s budgeted sales and direct materials purchases are as follows.

| | Budgeted Sales | Budgeted Material Purchases |
|---|---|---|
| January | RM300,000 | RM60,000 |
| February | 330,000 | 70,000 |
| March | 350,000 | 80,000 |

Rizalman's sales are 40% cash and 60% credit. Credit sales are collected 10% in the month of sale, 50% in the month following sale, and 36% in the second month following sale; 4% are uncollectible. Rizalman's purchases are 50% cash and 50% on account. Purchases on account are paid 40% in the month of purchase, and 60% in the month following purchase.

**Required:**

a) Prepare a schedule of expected collections from customers for March.
(10 marks)

b) Prepare a schedule of expected payments for direct materials for March.
(10 marks)

**Continued...**

## QUESTION 2 (25 Marks)

Selected information from the comparative financial statements of Riloyang Company Sdn. Bhd. for the year ended December 31, appears below:

| | 2019 | 2018 |
|---|---|---|
| Inventory | RM 140,000 | RM160,000 |
| Accounts receivable (net) | 180,000 | 200,000 |
| Total assets | 1,200,000 | 800,000 |
| Non-current liabilities | 340,000 | 300,000 |
| Current liabilities | 140,000 | 110,000 |
| Net credit sales | 1,520,000 | 1,200,000 |
| Cost of goods sold | 750,000 | 630,000 |
| Interest expense | 40,000 | 25,000 |
| Income tax expense | 60,000 | 29,000 |
| Net income | 160,000 | 85,000 |

**Required:**

Compute the following ratio for year 2019:

a) Inventory turnover

(5 marks)

b) Time interest earned

(5 marks)

c) Total Debt to Total Asset

(5 marks)

d) Account Receivable turnover

(5 marks)

e) Return on Assets

(5 marks)

## QUESTION 3 (15 Marks)

Savanna Company Sdn. Bhd. is considering two capital investment proposals. Relevant data on each project are as follows:

| | Project Red | Project Blue |
|---|---|---|
| Capital investment | RM440,000 | RM640,000 |
| Annual net income | 25,000 | 60,000 |
| Estimated useful life | 8 years | 8 years |

Depreciation is computed by the straight-line method with no salvage value. Savanna requires an 8% rate of return on all new investments.

**Required:**

a) Compute the cash payback period for each project.

(4 marks)

**Continued...**

(b) Compute the net present value for each project.

(4 marks)

(c) Compute the annual rate of return for each project.

(4 marks)

(d) Which project should Savanna select?

(3 marks)

**Total: 60 marks**

**End of Page.**

## APPENDIX 1

1. $FV_n = PV \times (1 + r)^n$

2. $PV = FV_n / (1 + r)^n$

3. $$FV_n = CF \times \left\{ \frac{[(1 + r)^n - 1]}{r} \right\}$$

4. $$PV_n = \left(\frac{CF}{r}\right) \times \left[1 - \frac{1}{(1 + r)^n}\right]$$

5. $$FV_n = CF \times \left\{ \frac{[(1 + r)^n - 1]}{r} \right\} \times (1 + r)$$

6. $$PV_n = \left(\frac{CF}{r}\right) \times \left[1 - \frac{1}{(1 + r)^n}\right] \times (1 + r)$$

7. $PV = CF / r$

8. $$FV_n = PV \times \left(1 + \frac{r}{m}\right)^{m \times n}$$

9. $$FV_n = (PV) \times (e^{r \times n})$$

10. $$EAR = \left(1 + \frac{r}{m}\right)^m - 1$$

# APPENDIX 2

**TABLE 2 Future Value of an Annuity of 1**

| (*n*) Periods | 4% | 5% | 6% | 7% | 8% | 9% | 10% | 11% | 12% | 15% |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 1.00000 | 1.00000 | 1.00000 | 1.0000 | 1.00000 | 1.00000 | 1.00000 | 1.00000 | 1.00000 | 1.00000 |
| 2 | 2.04000 | 2.05000 | 2.06000 | 2.0700 | 2.08000 | 2.09000 | 2.10000 | 2.11000 | 2.12000 | 2.15000 |
| 3 | 3.12160 | 3.15250 | 3.18360 | 3.2149 | 3.24640 | 3.27810 | 3.31000 | 3.34210 | 3.37440 | 3.47250 |
| 4 | 4.24646 | 4.31013 | 4.37462 | 4.4399 | 4.50611 | 4.57313 | 4.64100 | 4.70973 | 4.77933 | 4.99338 |
| 5 | 5.41632 | 5.52563 | 5.63709 | 5.7507 | 5.86660 | 5.98471 | 6.10510 | 6.22780 | 6.35285 | 6.74238 |
| 6 | 6.63298 | 6.80191 | 6.97532 | 7.1533 | 7.33592 | 7.52334 | 7.71561 | 7.91286 | 8.11519 | 8.75374 |
| 7 | 7.89829 | 8.14201 | 8.39384 | 8.6540 | 8.92280 | 9.20044 | 9.48717 | 9.78327 | 10.08901 | 11.06680 |
| 8 | 9.21423 | 9.54911 | 9.89747 | 10.2598 | 10.63663 | 11.02847 | 11.43589 | 11.85943 | 12.29969 | 13.72682 |
| 9 | 10.58280 | 11.02656 | 11.49132 | 11.9780 | 12.48756 | 13.02104 | 13.57948 | 14.16397 | 14.77566 | 16.78584 |
| 10 | 12.00611 | 12.57789 | 13.18079 | 13.8164 | 14.48656 | 15.19293 | 15.93743 | 16.72201 | 17.54874 | 20.30372 |
| 11 | 13.48635 | 14.20679 | 14.97164 | 15.7836 | 16.64549 | 17.56029 | 18.53117 | 19.56143 | 20.65458 | 24.34928 |
| 12 | 15.02581 | 15.91713 | 16.86994 | 17.8885 | 18.97713 | 20.14072 | 21.38428 | 22.71319 | 24.13313 | 29.00167 |
| 13 | 16.62684 | 17.71298 | 18.88214 | 20.1406 | 21.49530 | 22.95339 | 24.52271 | 26.21164 | 28.02911 | 34.35192 |
| 14 | 18.29191 | 19.59863 | 21.01507 | 22.5505 | 24.21492 | 26.01919 | 27.97498 | 30.09492 | 32.39260 | 40.50471 |
| 15 | 20.02359 | 21.57856 | 23.27597 | 25.1290 | 27.15211 | 29.36092 | 31.77248 | 34.40536 | 37.27972 | 47.58041 |
| 16 | 21.82453 | 23.65749 | 25.67253 | 27.8881 | 30.32428 | 33.00340 | 35.94973 | 39.18995 | 42.75328 | 55.71747 |
| 17 | 23.69751 | 25.84037 | 28.21288 | 30.8402 | 33.75023 | 36.97351 | 40.54470 | 44.50084 | 48.88367 | 65.07509 |
| 18 | 25.64541 | 28.13238 | 30.90565 | 33.9990 | 37.45024 | 41.30134 | 45.59917 | 50.39593 | 55.74972 | 75.83636 |
| 19 | 27.67123 | 30.53900 | 33.75999 | 37.3790 | 41.44626 | 46.01846 | 51.15909 | 56.93949 | 63.43968 | 88.21181 |
| 20 | 29.77808 | 33.06595 | 36.78559 | 40.9955 | 45.76196 | 51.16012 | 57.27500 | 64.20283 | 72.05244 | 102.44358 |

**TABLE 4 Present Value of an Annuity of 1**

| (*n*) Payments | 4% | 5% | 6% | 7% | 8% | 9% | 10% | 11% | 12% | 15% |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | .96154 | .95238 | .94340 | 0.93458 | .92593 | .91743 | .90909 | .90090 | .89286 | .86957 |
| 2 | 1.88609 | 1.85941 | 1.83339 | 1.80802 | 1.78326 | 1.75911 | 1.73554 | 1.71252 | 1.69005 | 1.62571 |
| 3 | 2.77509 | 2.72325 | 2.67301 | 2.62432 | 2.57710 | 2.53130 | 2.48685 | 2.44371 | 2.40183 | 2.28323 |
| 4 | 3.62990 | 3.54595 | 3.46511 | 3.38721 | 3.31213 | 3.23972 | 3.16986 | 3.10245 | 3.03735 | 2.85498 |
| 5 | 4.45182 | 4.32948 | 4.21236 | 4.10020 | 3.99271 | 3.88965 | 3.79079 | 3.69590 | 3.60478 | 3.35216 |
| 6 | 5.24214 | 5.07569 | 4.91732 | 4.76654 | 4.62288 | 4.48592 | 4.35526 | 4.23054 | 4.11141 | 3.78448 |
| 7 | 6.00205 | 5.78637 | 5.58238 | 5.38929 | 5.20637 | 5.03295 | 4.86842 | 4.71220 | 4.56376 | 4.16042 |
| 8 | 6.73274 | 6.46321 | 6.20979 | 5.97130 | 5.74664 | 5.53482 | 5.33493 | 5.14612 | 4.96764 | 4.48732 |
| 9 | 7.43533 | 7.10782 | 6.80169 | 6.51523 | 6.24689 | 5.99525 | 5.75902 | 5.53705 | 5.32825 | 4.77158 |
| 10 | 8.11090 | 7.72173 | 7.36009 | 7.02358 | 6.71008 | 6.41766 | 6.14457 | 5.88923 | 5.65022 | 5.01877 |
| 11 | 8.76048 | 8.30641 | 7.88687 | 7.49867 | 7.13896 | 6.80519 | 6.49506 | 6.20652 | 5.93770 | 5.23371 |
| 12 | 9.38507 | 8.86325 | 8.38384 | 7.94269 | 7.53608 | 7.16073 | 6.81369 | 6.49236 | 6.19437 | 5.42062 |
| 13 | 9.98565 | 9.39357 | 8.85268 | 8.35765 | 7.90378 | 7.48690 | 7.10336 | 6.74987 | 6.42355 | 5.58315 |
| 14 | 10.56312 | 9.89864 | 9.29498 | 8.74547 | 8.24424 | 7.78615 | 7.36669 | 6.98187 | 6.62817 | 5.72448 |
| 15 | 11.11839 | 10.37966 | 9.71225 | 9.10791 | 8.55948 | 8.06069 | 7.60608 | 7.19087 | 6.81086 | 5.84737 |
| 16 | 11.65230 | 10.83777 | 10.10590 | 9.44665 | 8.85137 | 8.31256 | 7.82371 | 7.37916 | 6.97399 | 5.95424 |
| 17 | 12.16567 | 11.27407 | 10.47726 | 9.76322 | 9.12164 | 8.54363 | 8.02155 | 7.54879 | 7.11963 | 6.04716 |
| 18 | 12.65930 | 11.68959 | 10.82760 | 10.05909 | 9.37189 | 8.75563 | 8.20141 | 7.70162 | 7.24967 | 6.12797 |
| 19 | 13.13394 | 12.08532 | 11.15812 | 10.33560 | 9.60360 | 8.95012 | 8.36492 | 7.83929 | 7.36578 | 6.19823 |
| 20 | 13.59033 | 12.46221 | 11.46992 | 10.59401 | 9.81815 | 9.12855 | 8.51356 | 7.96333 | 7.46944 | 6.25933 |